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**FISCAL IMPACT STATEMENT**

**LS 6599**

**BILL NUMBER:** HB 1120

**NOTE PREPARED:** Apr 7, 2005

**BILL AMENDED:** Apr 6, 2005

**SUBJECT:** State and Local Finance Matters.

**FIRST AUTHOR:** Rep. Espich

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) ***Indiana Stadium and Convention Authority:*** The bill establishes the Indiana Stadium and Convention Building Authority (SCBA) to acquire, construct, equip, own, lease, and finance facilities for lease to or for the benefit of a Capital Improvement Board. The bill prohibits the SCBA from issuing bonds unless: (1) each contract for the construction of any facility to be financed in whole or in part through the issuance of the bonds requires payment of the common construction wage; and (2) certain requirements with respect to seat licenses, ticket prices, and resale of tickets are met with respect to a football stadium. The bill authorizes the SCBA and the Development Finance Authority to enter into swap agreements.

***Marion County Stadium/Convention Center Taxes:*** The bill authorizes the Indianapolis City-County Council to increase the rates of the: (1) County Supplemental Auto Rental Excise Tax; (2) County Innkeeper's Tax; (3) County Food and Beverage Tax; and (4) County Admissions Tax; and provides that the resulting increased revenue is to be distributed to the Marion County Capital Improvement Board for use in paying debt service on certain obligations issued by the SCBA (obligations to finance stadium and convention center facilities in Marion County). The bill also repeals the current law concerning termination of the Marion County Food and Beverage Tax.

***Donut County Food and Beverage Taxes:*** The bill also authorizes Boone, Hamilton, Hancock, Hendricks, Johnson, Morgan, and Shelby counties, and certain municipalities located in those counties, to adopt a Food and Beverage Tax to assist in financing stadium facilities in Marion County.

***Marion County Professional Sports and Convention Development Area (PSCDA):*** The bill authorizes the Budget Director to increase the amount of state tax revenue that is annually captured by the Marion County

Professional Sports Development Area, and prohibits the expansion of the Marion County Professional Sports Development Area except with respect to the site of a facility to be financed by the SCBA. The bill also prohibits the expansion of a Professional Sports and Convention Development Area in other counties.

***County Income Tax:*** This bill limits the property taxes that are eligible for State Property Tax Replacement Credits and Homestead Credits and lowers the property tax replacement credit given for property owned or under the control of a corporation. It establishes a County Income Tax to replace the County Adjusted Gross Income Tax, County Option Income Tax, County Economic Development Tax, Employment Tax, and Municipal Option Income Tax. The bill allows an annual increase in local revenues to be funded through increases in local income taxes rather than property taxes. It allows an increase at the greater of the tax growth quotient or the assessed value growth quotient. The bill reorganizes property tax control laws concerning budgets, levies, tax rates, bond and lease remonstrances, and bond and lease review. The bill also limits the amount of debt that may be considered in allocating local income tax revenue to political subdivisions. It extends the petition and remonstrance provisions and review provisions to debt and leases financed through local income taxes. The bill consolidates the School Property Tax Control Board and the Local Government Tax Control Board and it repeals the County Tax Adjustment Board.

***Vanderburgh County Supplemental Auto Rental Excise Tax:*** The bill authorizes the Evansville City Council to impose a Supplemental Auto Rental Excise Tax in Vanderburgh County.

***Tippecanoe County Innkeeper's Tax:*** The bill allows Tippecanoe County to increase its Innkeeper's Tax from 5% to 6%.

***Riverboat Tax Distributions:*** The bill reallocates Riverboat Admissions and Wagering Tax revenue by capping the amount each political subdivision receives from each tax at: (1) the 2002 base year amount; or (2) the greater of \$2,000,000 or 20% of the subdivision's maximum levy; whichever is less. The bill retains the 2002 base year amounts for the local convention and visitor bureaus, the Department of Mental Health, the State Fair Commission, and the Horse Racing Commission. The bill also deducts future growth under local agreements from state distributions.

***Cigarette Tax:*** The bill increases the tax on cigarettes by \$0.19 per pack and distributes the revenue from the increase to the state General Fund. The bill also reduces the distributor discount for the purchase of cigarette tax stamps by a corresponding amount.

***Utility Services User Tax:*** The bill indicates that an out-of-state provider is subject to the Utility Services Tax whenever the provider furnishes utility services to an end user in Indiana for consumption in Indiana and the transaction is not otherwise exempt from taxation. The bill imposes a Utility Services User Tax on a person that uses or consumes utility services received from an out-of-state provider.

***Oil Inspection Fee:*** The bill increases the oil inspection fee from \$0.008 to \$0.01 per gallon (40 cents to 50 cents per 50 gallon barrel) and adds "special fuel" (diesel fuel) to the list of petroleum products subject to the fee.

***Coal Combustion Property Tax Deduction:*** The bill provides a property tax deduction for a building if materials made from coal combustion products are systematically used in the building's construction.

***Abatements and TIF Areas:*** The bill extends the termination date for authority to approve new property tax

abatements or to establish new tax increment finance areas from December 31, 2005, to December 31, 2011. The bill repeals the limitation of tax abatements for new logistical distribution equipment and new information technology equipment to certain counties located along Interstate Highway 69. The bill requires the filing of a personal property return schedule to apply for personal property tax abatement (instead of filing a separate application deduction) and provides that if the township assessor or county assessor does not deny the application, the abatement applies in the amount claimed or in an amount determined by the township assessor or county assessor.

***Property Tax Investment Deduction (Limited):*** The bill establishes a Property Tax Investment Deduction in declining amounts over three years for certain real property development, redevelopment, or rehabilitation that increases assessed value and creates or retains employment. The bill also establishes a similar deduction for the installation of personal property other than inventory.

***Enterprise Zones:*** The bill allows money in the Enterprise Zone Fund to be used to pay administrative expenses of local Urban Enterprise Associations (UEAs). The bill establishes the Enterprise Zone Investment Deduction, which allows a taxpayer who makes a qualified investment to obtain a deduction against the assessed value of a taxpayer's enterprise zone property located in an enterprise zone. The bill requires the Department of State Revenue to annually compile and report to the Indiana Economic Development Corporation (IEDC) information on the Enterprise Zone Loan Interest Credit. The bill adds the new deduction and the Loan Interest Credit to the list of incentives that make a zone business subject to the requirement to pay a registration fee to the State Enterprise Zone Board and to assist a local UEA. The bill requires the legislative body of each unit that contains the geographic area of an enterprise zone to adopt a resolution recommending the continuation or termination of the zone and provides that the zone terminates on December 31, 2005, if the legislative body recommended termination. The bill also provides that the Enterprise Zone Investment Cost Credit is assignable under certain conditions.

***Sales Tax Exemption for Professional Motor Vehicle Racing Teams:*** The bill expands the Sales Tax exemption for tangible personal property used by professional motor vehicle racing teams.

***Research and Development Sales Tax Exemption/Credit:*** The bill exempts a person from 100% of the Sales Tax on research and development equipment acquired after June 30, 2007. It also provides a refund of 50% of the Sales Taxes paid on transactions involving research and development equipment acquired after June 30, 2005, and before July 1, 2007.

***Research Expense Income Tax Credit:*** The bill increases the Qualified Research Expense Credit from 10% to 15% on the first \$1,000,000 of investment for taxable years beginning after December 31, 2007. It reduces from 15 to 10 the number of years for which a taxpayer may carry over a Research Expense Credit.

***Venture Capital Investment Tax Credit:*** The bill excludes certain debt provided by a financial institution after May 15, 2005, from the definition of "qualified investment capital" that is eligible for the Venture Capital Investment Tax Credit. The bill specifies that a business primarily focused on professional motor vehicle racing is eligible for certification as a qualified Indiana business for purposes of the Venture Capital Investment Tax Credit. It increases the total amount of Venture Capital Investment Tax Credits that may be allowed in a calendar year from \$10,000,000 to \$12,500,000. It also provides that a taxpayer may not carry over a Venture Capital Investment Credit for more than five taxable years following the first taxable year in which the credit is claimed.

***Hoosier Business Investment Tax Credit:*** The bill changes the amount of the Hoosier Business Investment Tax Credit (HBITC) from 30% to 10% of the qualified investment. It deletes the provision stating that the amount of the credit claimed in a taxable year may not exceed the lesser of the taxpayer's state tax liability growth or 30% of the qualified investment and repeals the HBITC definition of state tax liability growth. The bill deletes the requirement that an applicant for the HBITC must have conducted business in Indiana for at least one year before the date of the application. The bill also provides that the HBITC may be carried over for a maximum of five years (instead of nine years).

***Motion Pictures Incentives:*** The bill authorizes the use of state- and university-owned property free of charge as locations for making motion pictures. The bill provides that costs associated with the purchase of machinery, equipment, or special purpose buildings used to make motion pictures or audio productions are qualified investments for purposes of the HBITC.

***IEDC:*** The bill provides that the provisions authorizing the IEDC to administer the EDGE tax credit and the HBITC tax credit take effect on February 9, 2005 (the date the EDGE board was abolished) instead of July 1, 2005.

**Effective Date:** (Amended) January 1, 2005 (retroactive); May 15, 2005; Upon Passage; July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** (Revised) ***Stadium and Convention Authority:*** The bill creates the Indiana Stadium and Convention Building Authority (SCBA) as a separate body corporate and politic. The SCBA is governed by a board composed of seven members. Serving 3-year terms are two members appointed by the Governor, one member appointed by the President Pro Tempore of the Senate, one member appointed by the Speaker of the House of Representatives, and two members appointed by the Mayor of Indianapolis. One member appointed by the county council of one of the counties contiguous to Marion County serves a term of one year. The SCBA is organized to acquire, finance, construct, and lease land and capital improvements for the benefit of the Marion County Capital Improvement Board (CIB). The bill authorizes the SCBA to issue bonds for these purposes with a maturity of 40 years or less. The bill also authorizes the SCBA to lease land and capital improvements to the CIB for up to 40 years with lease rental payments coming from the following sources: (1) Innkeeper's Tax, Food and Beverage Tax, County Admissions Tax, and Supplemental Auto Rental Excise Tax imposed under provisions of the bill in Marion County; (2) Food and Beverage Tax imposed in Boone, Hamilton, Hancock, Hendricks, Johnson, Morgan, and Shelby counties and designated for lease rental payments under provisions of the bill; (3) state sales and state and local income tax revenue captured in the Marion County Professional Sports and Convention Development Area (PSCDA); (4) net revenues of the capital improvements; and (5) other funds available for the capital improvement. The bill prohibits the SCBA from issuing more than \$500 M in bonds to finance capital improvements in Marion County unless additional tax rates provided under the bill for the taxes listed in (1) above are not increased by the Marion County City-County Council on or before June 30, 2005; or the State Budget Director does not increase the capture limit for the Marion County PSCDA from \$5 M to \$11 M per year on or before July 1, 2005.

***County Income Tax:*** The state currently pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal, the state's Homestead Credit and PTRC payments would essentially be frozen at CY 2005 levels, except that the 20% PTRC credit would be reduced to 18% for real property owned by corporations in counties that fund annual controlled tax increases with county income tax. The CY 2005 total PTRC and Homestead Credit expenditure is estimated at \$2,028.5 M. Of the total \$2,028 M, the cost of the 20% PTRC is estimated at \$539 M. The portion of the \$539 M that is credited to corporations in counties that fund annual controlled tax increases with county income tax would be reduced by 10% (credit percentage reduced from 20% to 18%).

Under current law concerning PTRC and Homestead Credit distributions and property tax levies, it is estimated that the total state cost of PTRC and homestead credits would be about \$2,179 M in CY 2006 and \$2,313 M in CY 2007 or \$2,079 M in FY 2006 and \$2,224 M in FY 2007.

This provision would result in approximate savings of about \$50 M in FY 2006 and \$195 M in FY 2007 plus additional savings from PTRC payments on corporate property. If all real property was owned by corporations and all counties elect to fund annual controlled tax increases with county income tax, the additional reduction would amount to \$54 M. However, although the portion of real property owned by corporations is unknown, it is believed that corporate taxpayers pay a minority of property taxes in the state. So, the additional savings would be something much less than \$54 M.

***Vanderburgh County Supplemental Auto Rental Excise Tax:*** The DOR would incur additional administrative expenses relating to collection and monitoring of the new excise tax for Vanderburgh. The DOR's current level of resources should be sufficient to undertake these responsibilities.

***Oil Inspection Fee:*** The provision which increases the inspection fee for gasoline and kerosene and special fuel will require new forms and some computer changes for the DOR. According to the DOR, the new forms and computer changes can be accomplished within their current budget. The fund affected is the Motor Vehicle Highway Account.

***Cigarette Tax:*** The DOR may incur some administrative expenses related to the revision of forms and collection procedures to incorporate this tax increase. These provisions could presumably be implemented within the Department's existing level of staff and resources.

***Enterprise Zones:*** The bill would allow money in the state Enterprise Zone Fund to be used to pay administrative expenses of Urban Enterprise Associations (UEAs). The UEAs are local nonprofit entities that operate the EZs. Currently, money in the Fund may be used to: (1) pay the expenses of administering the Fund; (2) pay nonrecurring administrative expenses of the EZ Program; and (3) provide grants to UEAs for brownfield remediation in EZs. The Fund is administered by the IEDC and contains revenue from the EZ business registration fee. Businesses receiving EZ incentives must pay a fee equal to 1% of the incentives obtained by the business if the incentives exceed \$1,000 during the year. The FY 2004 balance in the Fund totaled \$259,437, and the balance in the Fund as of February 23, 2005, was \$314,657.

The DOR would incur some administrative expenses as a result of allowing taxpayers to transfer the Enterprise Zone (EZ) Investment Cost Credit (ICC). The bill requires the DOR to administer the tax credit transfer process and establish a reporting system for tax credit transfers. The DOR also may have to revise tax forms, instructions, and computer programs to deal with credit transfers. The bill also requires the DOR to annually compile and report to the Indiana Economic Development Corporation (IEDC) information on the EZ Loan Interest Credit. The DOR's current level of resources should be sufficient to implement this responsibility.

***Venture Capital Investment (VCI) Tax Credit:*** The bill extends eligibility for the VCI Tax Credit to businesses primarily focused on professional motor vehicle racing. This could potentially result in a minimal increase in the number of businesses that annually seek certification for the credit. The IEDC should have sufficient resources to implement this change.

***Motion Picture Incentives:*** The bill requires the Department of Administration and state higher education institutions to adopt policies and procedures for making, respectively, state-owned property and property owned by the institutions available free of charge as locations for making motion pictures. The Department can implement this provision within the existing level of staff and resources. The expansion of the Hoosier Business Investment Tax Credit to include qualified expenditures related to motion pictures or audio productions could have minimal administrative impact on the Indiana Economic Development Corporation, the Department of State Revenue, and the State Budget Agency.

**Explanation of State Revenues:** (Revised) ***Summary:*** The estimated revenue impact to the state General Fund and Property Tax Replacement Fund from changes in the bill is summarized in the table below (in millions of dollars):

Revenue Impact on GF & PTRF	FY 2006	FY 2007	FY 2008
Marion County PSCDA	-	-	(7.0)
Riverboat Tax Reallocation	76.2	76.2	76.2
Cigarette Tax Increase	92.0	93.0	94.0
R & D Sales Tax Exemption/Credit	(11.4 - 28.3 M)	(12.6 - 31.3 M)	(26.0 - 64.0 M)
Research Expense Income Tax Credit	-	-	(2.2)
Venture Capital Investment Tax Credit	(2.5 M)	(2.5 M)	(2.5)
<b>Net Impact</b>	<b>137.4 - 154.3</b>	<b>135.4 - 154.1</b>	<b>94.5 - 132.5</b>

***Marion County Professional Sports and Convention Development Area (PSCDA):*** The bill will reduce individual AGI Tax and Sales and Use Tax collections to the state by at least \$7.0 M per year beginning in FY 2008. This total could potentially grow by 4% to 5% annually until it reaches the new capture limit set by the bill. The current capture limit is \$5 M annually. This would be increased to \$16 M under the bill. Individual AGI Tax and Sales and Use Tax collections in the Marion County PSCDA exceeded the current \$5 M capture limit by \$3.89 M in FY 2002, \$4.2 M in FY 2003, and \$5.5 M in FY 2004. Assuming currently forecast growth rates for income, it is estimated that income tax collections in the PSCDA will be sufficient for Marion County to capture an additional \$7 M beginning in FY 2008.

***Riverboat Tax Distributions:*** The bill reallocates Riverboat Admissions and Wagering Tax revenue from docksite cities and counties to the state General Fund and the Property Tax Replacement Fund (PTRF). This is done by limiting the annual distribution of each tax to each docksite city and county to the greater of \$2 M or 20% of the city's or county's maximum levy, up to a maximum of the city's or county's FY 2002 distribution level for the particular tax. This change will commence with FY 2006 distributions. It is estimated that this change will increase Admission and Wagering Tax revenue to the state by approximately \$76.2 M in FY 2006 and FY 2007. The additional revenue to the state General Fund is estimated to total about \$10.3 M

each year, with the additional revenue to the PTRF totaling about \$65.9 M each year.

Riverboat Admission Tax distributions to county convention and visitor's bureaus, the Northwest Indiana Law Enforcement Training Academy, the Division of Mental Health, the State Fair Commission, and the Horse Racing Commission are not changed by the bill.

The bill also provides that Wagering Tax distributions to docksite cities and counties, beginning in FY 2006, are to be reduced dollar-for-dollar for incremental growth in amounts received under local incentive agreements with riverboat owners. This could potentially increase the impact of the bill to the PTRF, however, the precise impact is currently indeterminable.

**Cigarette Tax:** This bill increases the cigarette tax rate from \$0.555 per pack to \$0.745 per pack. Based on the December 14, 2004, *Revenue Forecast*, these increases are projected to increase state revenue by \$92.0 M in FY 2006 and by \$93.0 M in FY 2007. The bill provides that all of the revenue generated from these tax increases will be distributed to the state General Fund.

**Utility Services User Tax:** This bill creates a Utility Services User Tax (USUT) which is imposed on a person that uses or consumes utility services received from an out-of-state provider. The person liable for the tax shall pay the tax to the provider, and the provider shall remit the tax to the state. The tax rate is the same rate as the Utility Receipts Tax (URT), or 1.4%. The tax is effective July 1, 2005. DOR shall establish procedures for the collections of the use tax and may require providers to register with the Department. The same exemptions to the URT apply to the USUT. According to DOR, there are currently a few out-of-state utility providers who are supplying services to Indiana companies and are not subject to the URT. This USUT will bring in an indeterminable amount of revenue beginning in FY 2006.

**Oil Inspection Fee:** Increasing the inspection fee for gasoline and kerosene from \$0.40 to \$0.50 per barrel will increase annual revenue by approximately \$6.3 M. This estimate is based on 63.4 million barrels of gasoline received in FY 2004. The estimate does not include kerosene gallons, which could increase the total number of barrels by approximately 500,000, or increase the additional revenue generated by \$50,000.

**Special Fuel Inspection Tax:** This provision creates an inspection fee for special fuel (diesel) and is to be administered in the same manner as the Special Fuel Tax. The fee is set at \$0.50 per barrel which will generate annual revenue of approximately \$10.8 M. This estimate is based on 21.6 million barrels of diesel sold or used in FY 2004. The revenue generated from both taxes is deposited in the Excess Liability Trust Fund.

**Coal Combustion Property Tax Deduction:** The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base because of the property tax deduction for buildings constructed with coal combustion products will reduce the property tax revenue for these two funds.

**Abatements and TIF Areas:** The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements or TIFs would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

***Enterprise Zones:*** The bill allows certain taxpayers to assign any portion of the Enterprise Zone (EZ) Investment Cost Credit (ICC) to another taxpayer. In order to assign the ICC the following conditions must be met: (1) the taxpayer must have been awarded the credit before January 1, 2005; (2) the credit must have been awarded for qualified investment in the Lafayette Urban Enterprise Zone; and (3) *the Tippecanoe County Council must adopt an ordinance authorizing the use of county revenues to reimburse the state for the cost of the credit utilized by the assignee.* The bill further requires the taxpayer assigning the ICC to contribute 14% of the proceeds of the assignment to the Urban Enterprise Association for the EZ in which the taxpayer is located; and to reinvest the remaining proceeds in the taxpayer's EZ operations.

Over the years \$2.9 M in credits have been approved under the ICC. However, data is unavailable indicating the amount of this approved credit total that has been claimed by taxpayers against their tax liabilities. In addition, the amount of credits approved for projects in Tippecanoe County can not be reported due to confidentiality.

***Sales Tax Exemption for Professional Motor Vehicle Racing Teams:*** This bill exempts from the state's Sales Tax tangible personal property that: (1) is leased, owned, or operated by a professional racing team; and (2) comprises any part of a professional motor racing vehicle, excluding tires and accessories.

The DOR published Information Bulletin #67, which states that "a racing vehicle purchased by a professional racing team is exempt from Indiana Sales and Use Tax except for the tires and accessories." Therefore, this bill codifies the DOR's interpretation of the current exemption under IC 6-2.5-5-37.

***Research and Development Sales Tax Exemption/Credit:*** This bill provides a refund of 50% of the Sales Taxes paid on transactions involving research and development equipment for FY 2006 and FY 2007. The bill provides an exemption from 100% of the Sales Tax on research and development equipment beginning in FY 2008.

The 50% refund is estimated to reduce state Sales Tax revenue by approximately \$11.4 M to \$28.3 M in FY 2006, and \$12.6 M to \$31.3 M in FY 2007. The exemption that begins in FY 2008 is estimated to reduce Sales Tax revenue by approximately \$26 M to \$64 M in FY 2008. This estimate is based on data obtained from the National Science Foundation (NSF) that describes the total value of industrial research and development performed in Indiana through CY 2000. Based on past R&D expenditures and adjusting for historical growth, it is estimated that in FY 2006, Indiana firms will expend a total of approximately \$2,944 M on R&D in Indiana. In FY 2007, these expenditures are expected to increase to \$2,984 M. Using NSF information on how R&D funds are spent, it is estimated that approximately 14% to 35% of Indiana R&D expenditures would be subject to the state's Sales Tax. Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

***Research Expense Income Tax Credit:*** The bill clarifies that this credit applies only to Indiana qualified research expenses and gross receipts attributable to Indiana in the calculation of this credit. This bill also increases the credit from 10% to 15% on the first \$1,000,000 of investment for tax years beginning January 1, 2008. The bill reduces from 15 to 10 the number of years for which a taxpayer may carry over a research expense credit. The incremental revenue loss from increasing the rate of this credit is estimated to be \$1.5 M. However, the increase in the state's liability for this credit could potentially be \$2.2 M annually, with \$.6 M in liabilities being carried forward each year due to the fact that businesses qualifying for credits may have insufficient tax liabilities to use the credits earned during the taxable year. The potential increased cost of this



credit would depend on the frequency and cost of future research activities and income growth of taxpayers making creditable research expenditures. This increase in the amount of credit would affect revenue collections beginning in FY 2008 and years after.

*Background:* P.L. 242-2002 (ss) increased this credit from 5% to 10% of qualified expenses for tax years beginning January 1, 2003, and eliminated the apportionment factor used to calculate the credit. P.L. 81-2004 made this tax credit permanent. This bill will increase the credit to 15% on the first \$1,000,000 of investment with tax years beginning January 1, 2008.

The Research Expense Credit is available for individuals, corporations, limited liability companies, limited liability partnerships, trusts, or partnerships who have increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurred over their base-year expenditures. The base-year expenditures are measured for taxable years beginning after December 31, 1989, and are equal to the federal base amount as defined in the Internal Revenue Code (2001). A taxpayer is not entitled to a carryback or refund, but may carry forward the tax credit for 15 years. This bill will reduce this period to 10 years. The base-year expenses may not be less than 50% of the current tax year's qualified research expenses.

Preliminary data on the amount of credits claimed after the changes made by P.L. 242-2002(ss) suggest that approximately \$48 M in credits have been *claimed* in the 2003 tax year. This suggests that the base of the potential credits almost doubled over prior levels. However, since there is currently such a large number of suspended returns, DOR is unable to report the level of actual credits *utilized* for tax year 2003, which would indicate the direct and immediate revenue loss from the changes in the rate and base of the credit. A simulation of taxpayers suggests that the increase in the rate from 5% to 10% doubles the potential credits *claimed*, but only 80% of these credits would be *utilized* and 20% of the credits would be carried forward. This simulation also suggested that an increase in the rate of the credit from 10% to 15% on the first \$1M investment would increase the credits *claimed* by another \$1.5 M, with \$0.6 M of the credits being carried forward. Tax year 2001 tax return data indicates that almost 89% of individual filers reporting some business net income had income tax liabilities of \$3,400 or less. For the same year, 88% of corporate filers had income tax liabilities of \$10,000 or less.

A history of the Research Expense Credits taken on the individual and corporate tax returns for the last five years is reported in the table below.

History of Research Expense Credits Utilized				
Tax Year	Tax Rate	Indiv. AGI Credits	Corp. Tax Credits	Total Credits
1999	5%	\$1.6 M	\$25.8 M	\$27.4 M
2000	5%	\$1.6 M	\$18.1 M	\$19.7 M
2001	5%	\$1.2 M	\$21.6 M	\$22.8 M
2002*	5%	\$1.3 M	\$12.3 M *	\$13.6 M *
2003*	10%	\$2.2 M	\$14.0 M *	\$16.2 M *
* 2002 & 2003 tax year estimates are preliminary due to a large number of suspended returns.				

Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment. Assuming this economic impact would not have happened absent this incentive, the actual revenue loss from this credit would be mitigated by the incremental increase in other taxes generated by the research activities.

The Research Expense Tax Credit affects revenue collections deposited in the General Fund and the Property Tax Replacement Fund.

***Hoosier Business Investment Tax Credit (HBITC):*** The bill makes the following changes relating to HBITCs approved by the IEDC Board after June 30, 2005.

(1) The bill lowers the percentage credit from 30% to 10% of qualified investment made by the taxpayer in the state. In 2004 (the first year for the HBITC), the EDGE Board (under prior law) approved credits totaling about \$331.7 M for 54 projects comprising about \$1,106.1 M in qualified investment. Had the maximum percentage credit been 10% instead of 30% (and assuming these projects would have moved forward with the lower credit), total credits approved would be about \$110.6 M. The impact of this change also will depend on actions of the IEDC Board which will now administer the HBITC.

(2) The bill eliminates the "state tax liability growth" limit on the amount of HBITCs that a taxpayer may claim during a taxable year. Since the credit is nonrefundable under current statute, the new credit limit would be the taxpayer's state tax liability. The precise impact of changing this credit limit is indeterminable. However, the change presumably would increase the impact of future credits approved for taxpayers that may otherwise have insufficient growth in net income and state tax liability to exhaust the credits under the current scheme. ("State tax liability growth" is equal to a taxpayer's state tax liability in a taxable year minus the greater of: (a) the taxpayer's state tax liability in the most recent prior taxable year in which part of a credit was claimed or (b) the taxpayer's tax liability in the taxable year immediately preceding the taxable year in which the investment was made.)

(3) The bill reduces the carryforward period for unused HBITC credits from nine to five years. As data on tax liabilities for 2004 credit recipients is not available, the impact of this change is indeterminable, but could reduce the impact of future HBITCs to the extent that a taxpayer fails to exhaust the credits in five years.

(4) The bill eliminates the current HBITC requirement that an applicant must have conducted business in Indiana for at least one year prior to applying for the credit. Elimination of this requirement could expand the pool of potential applicants for the credit.

Under current statute, the IEDC Board is authorized to award the nonrefundable HBITC for expenditures on qualified investment determined to foster job creation and higher wages in Indiana. The tax credit is equal to 30% of the qualified investment. However, the credit amount that the taxpayer may claim in a taxable year is equal to the lesser of: (1) 30% of the qualified investment or (2) the taxpayer's state tax liability growth. A taxpayer may claim the credit against the AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. The tax credit may be awarded only for qualified investment made during tax years 2004 to 2007. The credit is nonrefundable and may not be carried back. Unused tax credits may be carried over for up to nine years after the year in which the investment was made.

***Venture Capital Investment (VCI) Tax Credit:*** The bill makes the following changes to the VCI Tax Credit.

(1) The bill increases the annual aggregate limit on VCI credits that may be claimed by investors for venture capital investment in qualified companies. The bill increases the annual credit limit from \$10 M to \$12.5 M, beginning in CY 2005. The potential annual increase of \$2.5 M in credits claimed for the period 2005 through 2008 could potentially increase the total cost of the credit by \$10 M before it expires. However, the additional fiscal impact depends on action by the IEDC to certify companies for purposes of the credit, and by investors to follow through with creditable investment.

In 2004, 42 companies were designated as qualified to receive venture capital investment for which the investors could claim VCI credits. For 2004, about \$16.3 M in credits were committed to these companies based on their proposed investment levels. However, only \$10 M in credits could be claimed by investors due to the annual aggregate credit limit set under current statute. At this time, the investors have made sufficient investment in the 42 qualified companies to claim approximately \$3.8 M of the 2004 committed tax credits. Under current law, a taxpayer may claim the VCI credits against the State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability.

(2) The bill limits the carryforward of unused VCI credits to five years. Under current statute, there is no limit to the carryforward period. The impact of this change is indeterminable as data is unavailable relating to credit use and carryforward.

(3) The bill extends eligibility for the VCI Tax Credit to businesses primarily focused on professional motor vehicle racing. This provision could potentially increase the number of businesses qualifying for the credit, but would not increase the fiscal impact of the tax credit due to the annual limit on new credits.

(4) The bill excludes certain secured debt financing of financial institutions from qualifying for the VCI Tax Credit. This exclusion would apply to debt financing provided by a financial institution after May 15, 2005, if it is secured by a mortgage or other agreement that establishes a collateral or security position for the financial institution that is senior to collateral or security interests of other investors in the qualified company.

The Venture Capital Investment Tax Credit is a nonrefundable tax credit equal to the lesser of: (1) 20% of qualified investment capital (debt or equity capital) provided to a qualified Indiana business during a calendar year; or (2) \$500,000. The tax credit is allowed for venture capital investment made from January 1, 2004, to December 31, 2008. Under current law, a taxpayer may claim the credit against the State Gross Retail and Use Tax, AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. While the tax credit is nonrefundable, it may be carried forward to subsequent years. No carryback of the tax credit is allowed. Current statute sets an annual limit equal to \$10 M on the total new credits certified by the IEDC for venture capital investment. A taxpayer must provide the venture capital investment to the qualified company within two years. Carryover credits claimed in a taxable year are not counted toward the \$10 M annual maximum.

***Motion Picture Incentives:*** The bill extends the Hoosier Business Investment Tax Credit (HBITC) to include qualified expenses used to make motion pictures or audio production during CY 2006 or CY 2007. The credit will only be available for CY 2006 and CY 2007 (due to the current expiration date of this credit), however, unused credits may be carried over for up to five years under the bill. This credit could potentially reduce revenue from the AGI Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount. The potential reduction in revenue is indeterminable.

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) The total estimated revenue impact of the bill to Marion County (in millions of dollars) for use in financing stadium and convention center facilities is summarized in the table below.

Source	FY 2006	FY 2007	FY 2008	FY 2009
<b>State Transfers:</b>				
Marion County PSCDA	0	0	7.0	7.0
<b>Marion County Taxes:</b>				
Food and Beverage Tax	18.2	19.1	20.0	21.0
Supplemental Auto Rental Excise Tax	1.8	1.8	1.8	1.8
Innkeeper's Tax	9.9	9.9	9.9	9.9
Existing County Admissions Tax	1.0	1.0	1.0	1.0
Additional County Admissions Tax	5.8	5.8	3.9	3.9
<b>Donut County Taxes:</b>				
Food and Beverage Tax	3.9	4.1	4.3	4.5
<b>Total</b>	<b>40.6</b>	<b>41.7</b>	<b>47.9</b>	<b>49.1</b>

**Marion County Stadium/Convention Center Taxes:** The taxes for stadium and convention center facilities to be imposed in Marion County are described below.

**Food and Beverage Tax:** Marion County would have the option to adopt an additional 1% food and beverage tax under the bill. If Marion County were to adopt the additional rate, the county would have to do so by June 30, 2005. The tax would be effective on transactions occurring after June 30, 2005. An additional 1% food and beverage tax would bring an estimated \$18.2 M in additional revenue in FY 2006 and \$19.1 M in FY 2007, with annual growth estimated at about 4.9%. Marion County currently imposes a 1% food and beverage tax with revenue of \$16.6 M in FY 2004. Under the bill, both the proposed increase and the existing 1% food and beverage tax would end January 1, 2041.

**Supplemental Auto Rental Excise Tax:** The bill increases the maximum tax rate in Marion County from 2% to 4%, provided the rate is increased before July 1, 2005. The bill provides for this maximum through December 31, 2040. Currently, the tax is imposed at a rate of 2%. The tax is imposed on the gross retail income received from the rental of an automobile or truck weighing less than 11,000 pounds for a period of less than 30 days in Marion County. Revenue from the tax is distributed to the Marion County Capital Improvement Board (CIB). The 2% tax generated about \$1.83 M in FY 2004 and has generated an average of about \$1.86 M annually since FY 2001.

**Innkeeper's Tax:** The bill increases the maximum tax rate in Marion County from 6% to 9%, provided the rate is increased before July 1, 2005. The increase to 9% would be allowed until January 1, 2028, with the total rate limited to 8% after December 31, 2027. The bill provides for this maximum through December 31, 2040. After that, the rate will decrease to 5%. The tax is imposed on gross income from lodging income. Revenue

from the tax is distributed to the Marion County CIB. The 6% tax generated about \$19.7 M in FY 2004 and has generated an average of about \$19.2 M annually since FY 2001.

**County Admissions Tax:** The bill provides for an increase in the existing County Admissions Tax and provides for additional admissions taxes of \$3 and \$1 per admission for certain events. The bill increases the maximum tax rate in Marion County for the existing County Admissions Tax from 5% to 6%, provided the rate is increased before July 1, 2005. The tax is currently imposed on the price of admission to any event held in the RCA Dome, the Convention Center, Victory Field, or Conseco Fieldhouse. Revenue from the tax is distributed to the Marion County CIB. The 5% tax generated about \$5.04 M in FY 2004 and has generated an average of about \$4.57 M annually since FY 2001.

In addition, the bill provides for an additional \$3 admission tax for admission to a professional sporting event, and \$1 for admission to other events, held in a facility financed by the Marion County CIB or the Marion County Convention and Recreational Facilities Authority. This tax would apply to professional sporting events at the RCA Dome, Conseco Fieldhouse, and Victory Field. However, since the new stadium would be financed by the Indiana Sports and Convention Building Authority, the additional taxes would not apply to events at the new stadium. It is estimated that professional sports events at the applicable facilities could generate approximately 1.9 M taxable admissions in FY 2006 and FY 2007. Assuming the new stadium would open in the fall of 2008, this total would drop to about 1.3 M in FY 2008. Attendance at events other than professional sports events is currently indeterminable.

**Marion County Professional Sports and Convention Development Area (PSCDA):** The bill allows the State Budget Director to increase the state income and sales tax capture limit in the Marion County PSCDA from \$5 M annually to \$16 M annually from July 1, 2007, to December 31, 2027. The capture limit would be \$11 M from January 1, 2028, to December 31, 2040. The additional \$11 M annually would be utilized for the stadium and convention center projects financed by the Indiana Stadium and Convention Building Authority (SCBA). Also, the bill prohibits any boundary changes in the Marion County PSCDA after May 14, 2005, unless the change is to include the projects financed by the SCBA.

Individual AGI Tax and Sales and Use Tax collections in the Marion County PSCDA exceeded the \$5 M capture limit by \$3.89 M in FY 2002, \$4.2 M in FY 2003, and \$5.5 M in FY 2004. Assuming currently forecast growth rates for income (4% to 5% annually), it is estimated that income tax collections in the PSCDA will be sufficient for Marion County to capture an additional \$7 M beginning in FY 2008. To the extent that the new facilities added to the PSCDA generate more income and sales tax collections, these amounts could potentially increase. Currently, the Marion County PSCDA includes Conseco Fieldhouse, the Indiana Convention Center, the RCA Dome, Victory Field, and the Colts' practice facility. These captured state and local tax collections are utilized for debt payments relating to Conseco Fieldhouse.

**Donut County Food and Beverage Taxes:** The bill would allow the fiscal bodies of Boone, Hamilton, Hancock, Hendricks, Johnson, Morgan, and Shelby Counties, and the municipalities of Avon, Carmel, Fishers, Franklin, Greenfield, Greenwood, Lebanon, Martinsville, Noblesville, and Westfield the option to adopt an ordinance to impose a 1% food and beverage tax. The above listed municipalities would be able to adopt the tax only if their parent county were to adopt the tax. In addition, if Marion County failed to adopt an additional 1% food and beverage tax by June 30, 2005, none of the above-listed counties or municipalities would have authorization to adopt a tax under the provisions of the bill.

Counties from the above list that adopt the food and beverage tax at 1% would receive 50% of the revenue

generated from adoption of the tax. The remaining 50% of the tax revenue would go to the Marion County Capital Improvement Board for stadium and convention center projects. Under the bill, a county would have to adopt the tax by July 31, 2005.

If the above-listed municipalities were to adopt the 1% food and beverage tax, all revenue generated by the tax would be received by the municipality's fiscal officer. Under the bill, a municipality would have to adopt the tax by September 30, 2005. A food and beverage tax adopted by a municipality would be assessed in addition to a food and beverage tax adopted in the municipality's parent county.

If all counties listed above (excluding Marion) were to adopt the 1% food and beverage tax, the total food and beverage taxes in those counties would generate an estimated \$7.9 M in FY 2006 and \$8.2 M in FY 2007 (complete FY estimates), with growth estimated at about 4.9% annually. Under the bill, 50% of the revenue (approximately \$3.9 M in FY 2006 and \$4.1 M in FY 2007) would be used for stadium and convention center projects in Marion County.

<b>Food and Beverage Tax Estimates at 1% (Counties Surrounding Marion County).</b>				
<b>County</b>	<b>FY 2006</b>		<b>FY 2007</b>	
	<b>Total</b>	<b>50%</b>	<b>Total</b>	<b>50%</b>
<b>Boone</b>	518,201	259,101	543,593	271,797
<b>Hamilton</b>	2,485,706	1,242,853	2,607,506	1,303,753
<b>Hancock</b>	647,369	323,684	679,090	339,545
<b>Hendricks</b>	1,257,239	628,619	1,318,844	659,422
<b>Johnson</b>	1,900,835	950,418	1,993,976	996,988
<b>Morgan</b>	627,540	313,770	658,289	329,145
<b>Shelby</b>	426,079	213,040	446,957	223,478
<b>Total</b>	7,862,969	3,931,485	8,248,255	4,124,128

Additionally, no more than \$5 M of the total revenue received by these counties from the proposed food and beverage taxes would be earmarked for the proposed Colts' stadium and convention center expansion in a given state fiscal year. The \$5 M cap would likely be reached within several years assuming the food and beverage tax collections of the counties were to exhibit annual growth. Any remainder of counties' food and beverage revenue after the first \$5 M would be directed to the county fiscal officer. When all obligations for the stadium and convention center are paid, all revenue generated by the food and beverage taxes would be received by the adopting counties.

Food and beverage tax revenue received, under the bill, that was not deposited with the Marion County Capital Improvement Board of Managers and all revenue generated by a political subdivision food and beverage tax would be used for any legal purpose.

The tax would terminate on January 1, following the year in which the last payment is made on CIB obligations that existed on January 1, 2006

**County Income Tax:** This provision would shift most increases in levy-capped property tax levies to a county income tax.

Maximum permissible levies are currently calculated by multiplying the previous year's actual controlled levy by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV. This method began with taxes paid in 2004. Cumulative funds and certain other funds are controlled by property tax rate limit. Debt service fund levies are not capped and must be sufficient to make required payments.

Under this proposal, the levies that are currently subject to the maximum levy limitation would be capped at CY 2005 levels. Rate-controlled and debt service fund levies would not be affected by this cap.

In place of the annual increase in maximum levies, this bill would provide for an increase in county income taxes. To do this, the unit's CY 2005 property tax levy and the levy replacement portions of CAGIT distributions would be added together to create a controlled revenue amount. Each year's controlled increase amount would be calculated by multiplying the prior year total controlled revenue amount by the greater of the tax growth quotient (TGQ) or the assessed value growth quotient (AVGQ).

The TGQ is the same as the statewide, income-based growth quotient that is currently used to increase maximum levies. The AVGQ is the three-year average growth in the unit's assessed value and is the same growth allowed under appeal for fast-growing units. The only change in growth policy would be that the taxing unit's AVGQ would not have to exceed the statewide AVGQ by 3% (as it does under current law) in order for the unit to have assessment-based growth rather than income-based growth.

The total controlled increase amounts of all of the taxing units in the county would be added together to form the amount that county income taxpayers would have to pay through the county income tax. The total controlled increase amount would be further increased by up to 20% of the current year's controlled increase amount in order to provide money to maintain the unit's rainy day fund (RDF) balance at 6% of the unit's total controlled tax limit.

The county income tax council could opt out of using income tax money to fund the controlled tax increase amount(s) attributable to one or more years and instead allow units to increase property tax levies. If a taxing unit increases its property tax levy, then the levy increase would not be eligible for any PTRC or homestead credits.

Overall, with one exception, a taxing unit's controlled revenue under this proposal should be about the same as the current controlled levy amount plus the CAGIT proceeds that are used to reduce levies. The amount of county income tax generated for deposit into the unit's RDF would represent an increase in revenue. However, under this bill, use of the RDF balance would be the primary method of funding a shortfall, reducing the need to borrow money. If borrowing to cover shortfalls is reduced, then interest expenses would also be reduced. The amount that would be generated for RDFs is estimated at about \$45 M per year, until the fund balance for each unit reaches 6% of the total controlled tax limit. After the 6% balance has been reached, a smaller

amount would have to be generated each year to maintain the 6% balance.

The CY 2005 controlled tax base is estimated at \$5,437 M. The estimated controlled increase amounts, amounts to be raised for the RDF, and county income tax rates are shown in the following table.

**Estimated Controlled Revenues, RDF Deposits, and County Income Tax Rates\***

	Total Controlled Increase	Rainy Day Fund	County Income Tax Rates		
			Average	Minimum	Maximum
CY 2006	\$220 M	\$ 44 M	0.25 %	0.11%	0.42%
CY 2007	439 M	44 M	0.43%	0.22%	0.77%
CY 2008	664 M	45 M	0.62%	0.27%	1.14%
CY 2009	899 M	47 M	0.79%	0.37%	1.50%
CY 2010	1,143 M	45 M	0.96%	0.45%	1.87%
CY 2011	1,398 M	37 M	1.12%	0.53%	2.25%

\* Tax rates shown are in addition to local option income tax rates

For taxpayers, the impact will vary. Overall, since the state's PTRC and homestead payments would be capped, net tax amounts, whether from property or income tax, would be higher than under current law. Local taxpayers would pay the full amount of local tax increases rather than receiving a credit from the state for part of the increase.

No tax shifts would occur as they relate to the amount of property taxes already levied in 2005. Corporate property owners in counties that fund annual controlled tax increases with county income tax would pay a larger portion of their gross taxes because of the reduction in the PTRC rate for corporate-owned property.

There would, however, be tax shifts as they relate to the revenue increases over the 2005 levy. Tax increases would be shifted away from property owners and to income earners. In many cases, these are the same taxpayers, and in some cases they are not. Moreover, a taxpayer's share of property tax burden may or may not be comparable to that taxpayer's share of income tax burden. All county income tax payers would share in providing the total revenue increases for all units.

***Vanderburgh County Supplemental Auto Rental Excise Tax:*** The bill allows the Evansville city council to adopt a county Supplemental Auto Rental Excise Tax. The tax is estimated to generate just under \$219,000 annually.

The tax would be assessed at 2% of the gross retail income from the rental of passenger motor vehicles defined as a motor vehicle designed for carrying passengers, not including motorcycles, buses, or school buses. Vehicle rentals for use in funeral services, rentals during vehicle servicing, and insurance rentals would be exempt from the tax. The tax would expire after December 31, 2036. The tax would be imposed, paid, and collected in the same manner as the state Gross Retail Tax. Under the bill, retail merchants in Vanderburgh County would have the option of filing a separate return, filing with the state Auto Rental Excise Tax, or filing with a return for the state Gross Retail Tax. Revenue collected by the tax would be distributed to the TCIF.



Money in the TCIF would be used only for purposes designated by the city legislative body. Under the bill, an adopted tax would expire after December 31, 2035. If a tax were adopted before June 1, of a year the tax would apply to auto rentals after June 30 of the same year. If a tax were adopted on or after June 1 of a year the tax would apply to auto rentals after the last day of the month in which the ordinance is adopted.

According to the DOR, \$438,267 was distributed in Vanderburgh County from the state 4% Auto Rental Excise Tax in CY 2004. Based on this amount, it is estimated that a 2% county supplemental auto rental excise tax could generate an additional \$219,100 in revenue per calendar year. However, due to the exemptions listed above, the revenue generated by a county supplemental auto rental excise tax as proposed would be somewhat less than \$219,100.

***Tippecanoe County Innkeeper's Tax:*** The bill increases the maximum Innkeeper's Tax rate in Tippecanoe County from 5% to 6%, and requires the revenue attributable to the rate increase to be deposited in a Supplemental Innkeeper's Tax Fund. The additional 1% tax could potentially generate about \$275,000 annually in Tippecanoe County. The bill allows the Tippecanoe County Council to use the money in the Fund to promote economic development in Tippecanoe County, including reimbursing the state for the cost of Enterprise Zone (EZ) Investment Cost Credits (ICC) from the Lafayette Urban Enterprise Zone that have been assigned by the taxpayer that made the investment to another taxpayer (see discussion under Explanation of State Revenues). The bill also allows the Tippecanoe County Council, by ordinance, to reimburse the state for the ICC cost with any source of revenue, including the additional Innkeeper's Tax. The 5% tax in Tippecanoe County generated about \$1.4 M in FY 2004, and has generated an average of about \$1.38 M annually since FY 2001.

***Riverboat Tax Distributions:*** The bill reallocates Riverboat Admissions and Wagering Tax revenue from docksite cities and counties to the state General Fund and the Property Tax Replacement Fund (PTRF). This change begins with distributions in FY 2006. The estimated annual revenue loss (in millions of dollars) in FY 2006 and FY 2007 to docksite cities and counties from this distribution limit is summarized in the table below. Estimates are based on the local unit's 2005 maximum levy.

<b>City/County</b>	<b>Revenue Loss</b>
Dearborn County	5.5
East Chicago	5.5
Evansville	0
Gary	0
Hammond	5.6
Harrison County	19.3
Lake County	0
LaPorte County	0
Lawrenceburg	21.1
Michigan City	7.5
Ohio County	0.6
Rising Sun	5.2
Switzerland County	5.9
Vanderburgh	0
<b>Total</b>	<b>76.2</b>

***Coal Combustion Property Tax Deduction:*** Beginning with taxes paid in 2007, this bill would provide a 5% deduction from the assessed value of a building "designed and constructed to systematically use qualified materials throughout the building." Qualified materials are defined as building materials that, by dry weight, are at least 60% coal combustion products. The bill references a current-law definition of coal combustion products that includes only the byproducts of coal combustion in an Indiana facility.

Qualification would be determined by the Center for Coal Technology Research at Purdue University. If the owner applies for building certification by April 10 of the assessment year, the Center must act on the application before May 10. If the Center fails to act before May 10, then the building is considered to be certified. The deduction is not limited to new construction.

In CY 1999 approximately 42% of coal combustion products produced in Indiana were reused, a total of 3.5 M tons of reused products. Nationally, 40.5 M tons out of 121 M tons (or 33%) of coal combustion products produced in CY 2001 were reused. Coal combustion products are used in many products used in construction, including drywall, Portland cement, fill materials, paints, carpeting, and synthetic tiles. The large quantity of coal combustion products currently used nationally suggests that there may be a substantial number of buildings either already in existence or scheduled to be built before March 1, 2006, which could be built with coal combustion byproducts. The number and types of these buildings cannot be currently estimated. However, the requirement that these materials must be byproducts from the combustion of coal in an Indiana facility could limit the number of those buildings that qualify for the deduction.

The Center for Coal Technology Research, which is housed by the Purdue Institute for Interdisciplinary

Engineering Studies, consists only of a part-time director. The Center currently has responsibility to produce reports, prepare public education programs, and review coal research grant applications. The Center must also approve products whose manufacturers may be able to claim a deduction against the assessed value of the depreciable personal property used in the manufacture of those products. The current staffing level for the Center makes it unlikely that the Center would be able to process many of the applications for the real property deduction. The result would be that many, if not all, applications for the deduction could be certified by default.

The reduction of assessed value that would result from the new real property deduction would shift part of the property tax burden from buildings that qualify for the deduction to all other property. Total local revenues would remain unchanged, except for cumulative funds where the fund revenue would be reduced by the product of the deduction amount multiplied by the fund's tax rate.

***Abatements and TIF Areas:*** Under current law, real property, new manufacturing equipment, and new research and development equipment may qualify for property tax abatements. The abatements may be granted for periods up to ten years. Currently, no new abatements can be granted after December 31, 2005.

Under current law, TIFs may be established for periods of up to 50 years. Proceeds from TIF allocations may be used to:

1. Pay debt service on obligations incurred for the financing of redevelopment in the allocation area;
2. Deposit funds into a debt service reserve to pay bonds;
3. Pay debt service on bonds used to pay for local improvements in or serving the allocation area;
4. Pay premiums on early bond redemptions;
5. Make lease payments;
6. Reimburse the local unit for the cost of making local improvements;
7. Reimburse the local unit for rent paid by the unit for a building or parking facility in or serving the allocation area;
8. Pay a PTRC-like credit to taxpayers in the allocation area;
9. Pay expenses incurred by the redevelopment commission for public improvements in or serving the allocation area; and
10. Reimburse public and private parties for expenses in training employees of certain industrial facilities.

Currently, no new TIFs may be created after December 31, 2005.

This bill extends the December 31, 2005, deadline to December 31, 2010, for granting abatements and establishing TIFs. If there is an increase in development because of the continued use of abatements and TIFs, the new property would, at some point, be placed on the tax rolls. For abatements this could help spread the property tax burden and could possibly reduce some tax rates, and for TIF areas it increases revenue for the redevelopment commission. However, if one assumes that the investment would be made with or without the abatement or TIF, any increase in abatements (ERAs) and TIFs could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement or TIF is a local decision.

The impact would depend on the value of new abatements and TIFs that might be granted after CY 2005 and before CY 2011 under this provision. The following chart shows the AV for real and personal property abatements and total TIFs for the last 10 years.

Year	Abatements				TIFs	
	Real	Personal	Total	Increase	Total	Increase
1994	\$41,790,975	\$54,579,109	\$96,370,085		\$23,116,487	
1995	42,660,544	44,913,061	87,573,605	(8,796,480)	27,555,225	4,438,738
1996	39,409,092	66,760,681	106,169,772	18,596,168	32,003,233	4,448,008
1997	41,483,134	49,280,601	90,763,735	(15,406,038)	31,998,229	(5,004)
1998	43,312,527	43,532,906	86,845,433	(3,918,302)	38,078,710	6,080,481
1999	47,739,446	49,989,013	97,728,459	10,883,026	40,528,120	2,449,410
2000	50,877,703	70,955,197	121,832,900	24,104,441	51,193,949	10,665,829
2001	57,247,336	94,062,035	151,309,370	29,476,471	29,191,747	(22,002,202)
2002	65,621,529	102,594,325	168,215,854	16,906,484	44,379,676	15,187,929
2003	59,113,642	154,181,896	213,295,539	45,079,685	29,950,248	(14,429,428)

Current law authorizes abatements for new "logistical distribution equipment" and new "information technology (IT) equipment" if it is installed (1) by December 31, 2005, and (2) in an economic revitalization area of a county located within a 107-mile stretch of I-69. Under this provision, the abatement would be available for logistical distribution and IT equipment installed in any economic revitalization area of any county. The bill would also delay the December 31, 2005, deadline to December 31, 2010, for these abatements to be granted.

Logistical distribution equipment is defined as racks, scanners, separators, conveyors, forklifts, moving equipment, packaging equipment, sorting and picking equipment, and software. IT equipment is defined as equipment and software used in the fields of information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development, and fiber optics.

**Property Tax Investment Deduction (Limited):** Under this provision, the increase in AV from certain real and personal property additions would qualify for property tax deductions over a period of four years. The deduction would apply if the property owner creates or retains jobs because of the project.

The deduction would apply to the following property that is first assessed on March 1, 2006, 2007, 2008, or 2009:

1. Real property AV that is added due to development, redevelopment, or rehabilitation; and
2. Personal property installed by the owner that was never before used by its owner in Indiana.

The real property deduction would not be available for the following facilities: golf courses; country clubs; massage parlors; tennis clubs; racetracks; package liquor stores; residential property, unless it is low-income; or in a residentially distressed area; or facilities for skating, racquet sport, hot tubs, suntans, retail food and beverage sales, automobile sales or service, or other retail facilities.

The deductions for both real and personal property would equal 75% of the AV increase in the first assessment year, 50% in the second year, and 25% in the third year. Each property owner would be limited to \$2 M AV in real property deductions plus \$2 M AV in personal property deductions within each county.

Taxpayers would not be permitted to claim more than one deduction for which the project may qualify. So, for example, a taxpayer could not claim both a regular abatement and this deduction on the same property. Taxpayers who are located in a TIF area would not be eligible for the deduction.

The real property deduction is much like the existing 3-year abatement for real property. The personal property deduction differs from the current personal property abatement in that the current abatement is available only

for manufacturing, research, and logistic equipment. The proposed deduction has no such requirement on the use of the equipment. The deduction percentages for both the proposed real and personal property deductions are lower than the current abatement percentages.

Taxpayers seeking the real property deduction would have to file a claim for the deduction with the township assessor. Taxpayers seeking the personal property deduction would have to claim the deduction on their personal property tax return.

***Enterprise Zones:*** The bill establishes the Enterprise Zone (EZ) Investment Deduction. This would allow the increase in AV from "qualified investment" in real and/or personal property of an EZ business to be deducted for up to 10 years. If there is an increase in development in the EZs because of the deduction, the new real and personal property would, after no more than 10 years, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, assuming that the investment would have been made in the absence of the deduction, the deduction results in a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

The deduction would apply to the remainder of: (1) the total AV of the taxpayer's EZ real and personal property on a particular assessment date minus (2) the total AV of the taxpayer's EZ real and personal property in the year prior to the year in which the qualified investment was made (defined as the "base year AV").

Under the bill, qualified investment would be any of the following expenditures relating to an EZ location on which a taxpayer's EZ business is located:

- (1) The purchase of a building.
- (2) The purchase of new manufacturing or production equipment.
- (3) The purchase of new computers and related office equipment.
- (4) Costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements.
- (5) Onsite infrastructure improvements.
- (6) The construction of a new building.
- (7) Costs associated with retooling existing machinery.

A taxpayer must apply to the county auditor to claim the deduction for a particular year. The county auditor would determine whether the taxpayer is eligible for the deduction.

**State Agencies Affected:** Indiana Gaming Commission; Department of State Revenue; Indiana Economic Development Corporation; Department of Local Government Finance; State Higher Education Institutions; Department of Administration; State Fair Board; Department of Natural Resources; Treasurer of State.

**Local Agencies Affected:** County auditors; fiscal bodies in municipalities with EZs; Marion County; Marion County Metropolitan Development Commission; Marion County Capital Improvement Board; Boone, Dearborn, Hamilton, Hancock, Harrison, Hendricks, Johnson, Morgan, Ohio, Shelby and Switzerland Counties; Avon, Carmel, East Chicago, Fishers, Franklin, Greenfield, Greenwood, Hammond, Lawrenceburg, Lebanon, Martinsville, Michigan City, Noblesville, Rising Sun, and Westfield; All local civil taxing units and school corporations.

**Information Sources:** Sources available upon request.

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